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Trade Promotion Within the Context of the African Crisis: Adjustment Policies and the Lagos Plan of Action

A Policy Paper

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I. INTRODUCTION

1. During the last twenty years, various attempts have been made by the African countries to assess their overall economic performance and to define strategies for improvement trade performance. Five years after the adoption of the Lagos Plan of Action, the economies of Africa are hard hit by a deep and intensifying crisis. This crisis takes place within the context of persistent world recession which has had devastating impacts on the economies of developing countries. The structurally dependent and extroverted African economies are not in a position to protect themselves from the impact of such recession. In terms of trade, this has clearly demostrated the shortcomings of national development policies and the limits of primary commodity export oriented trade promotion policies.

2. The purpose of this paper is to analyse the trade promotion policies that are required to implement adjustment polices within the context of the Lagos Plan of Action. To this end, it may be recalled that the strategy of self-sustaining development and collective self-reliance calls for a reversal of priorities and a gradual break with the system of quasi-imperial preferences that have to date linked African countries with the former colonizing metropolises. The order of priorities required under the Lagos Plan of Action is based on the setting of economic growth on an indigenous footing and the fastening of international development factors in national, subregional and regional structures. Africa's external relations should contribute to the development of the continent and not to the transmission of economic growth to development poles outside Africa. The order in which the Lagos Plan of Action considers international trade and financial questions is therefore not fortuitous. It follows the precise logic of an endogenous development strategy.

3. In the field of domestic trade the Lagos Plan of Action stresses the integration of rural markets with the rest of the national economy which becomes the central pillar of self-sustaining growth. The streamlining of distribution networks and their control of national private or public enterprises or a combination of the two without, however, loosing sight of the need to balance investments in the domestic trade sector with investment in the productive sectors is also of paramount importance.

4. In line with the strategy for restructuring the markets for intra-African trade the Lagos Plan of Action recommends the reduction and/or elimination of trade barriers through the establishment of preferential trade areas or similar institutions. The establishment and/or strengthening of mechanisms for facilitating and developing trade, should also constitute an integral part of the overall trade policy.

5. At international level, the self-sustaining development approach advocated in the Lagos Plan of Action does not mean breaking off the economic relations linking African countries with their traditional partners in the developed market-economy countries. It is recognized that those relations are vital, but that they should be re-orientated toward promoting the development of Africa.

In order to free African trade from its current constraints, trade will have to be diversified structurally and geographically in four main areas: (a) efforts to promote trade with other developing regions (Asia and Latin America), as a second priority after intra-African trade, are recommended; (b) the promotion of trade with the developed centrally planned-economy countries, which constitute a market that had yet to be explored; (c) trade with the developed market-economy countries should be conducted under fresh arrangements and on new principles, with renewed preferential treatment and the abolition of discriminatory practices and protectionist measures designed to keep out manufactures and semi-processed goods produced in the developing countries; and (d) a systematic policy for the control of foreign trade by national structures should include measures regulating the operations of transnational corporations.

II. PRIORITIES IN TRADE PROMOTION

6. In defining their overall external trade promotion requirements, the following priorities need to be considered separately as well as in an integrated manner with the rest of the programmes:

(a) domestic trade to ensure balanced national growth;

(b) intra-African trade for regional development through collective self-reliance;

(c) trade with the other developing regions, namely Latin America, South-East Asia and the Pacific, the Caribbean and Western Asia (Middle East);

(d) the industrialized countries of the Organization for Co-operation and Development (OECD) as well as the socialist countries of Eastern Europe.

7. Relations with the developed market-economy countries follow long-established channels which were established during the colonial period. Restructuring such trade channels to suit Africa's interests is more a matter of political solutions than the simple promotion of trade and will happen only if African trade is diversified. In order to do so, certain other policy instruments in human resources development and research need to be implemented.

A. Human resources development for trade promotion

8. The restructuring of African trade requires individuals who are conversant with trade planning and promotion techniques who also must have a fresh outlook at the traditional mechanisms for trade promotion. The excercise called for in trade development requires two types of training:

(a) Training in "macro marketing"

9. Training is required in modern planning techniques in general and in marketing planning in particular to ensure that the external trade component of development plans has a clear-cut linkage with production plans. One of the weakest aspect of Africa's trade policy is the absence of linkage between production and trade. It is a fact that a number of African countries do not have external trade plans. Therefore, it is proposed that external trade be included in the circular of post-graduate management institutes in the subregion, such as the Eastern and Southern African Management Institute (ESAMI) and the Centre africain d'etudes superieures 'e gestion de Dakar and at the African Institute for Economic Development and Planning (IDEP) in Dakar as well as in the African universities. It is essential that macro marketing planning should cover subjects ranging from the definition of production and output to the determination of target markets. At the same time, efforts should be made to harmonize the development approaches between African planners, trade economists and economic agents so as to ensure an integrated approach at the national, subregional and regional levels.

(b) Operational training

10. The private sector as well as government agents directly involved in external trade operations also require specific training. It is also crucial that emphasis should be put on training of trainers so as to have the manpower required as soon as possible. The acquisition of marketing skills should be paired with a practical training in market surveying and research conducted through "eductional trade missions". In this regard, the subregional approach to training would cut costs and supply the teaching resources needed for national training programmes.

6. Research in trade promotion

11. One of the obstacles to the development of both domestic and intra-African trade is the lack of reliable information on supply and demand in Africa. Therefore new information systems should be established within trade promotion institutions can only be of service to such trade. This should be accompanied by a thorough inventory of supply and demand has been made at the national, subregional and regional levels. Such an inventory will involve collecting data on production capacity, actual production, types of products, the efficiency of production unit and the management and marketing functions; quantitative and qualitative demand, conditions for creating and satisfying demand (sources and current conditions of supply, regulation etc.). The study of supply and demand being advocated goes beyond the basic level of data collecting and should result in a minute survey of the conditions governing distribution and marketing so as to permit an increased flow of trade.

12. The research should also include investigations in the current status and orientation of African trade which are governed by a system of vertical and horizontal of integration established by transnational corporations (TNCs) and their parent enterprises in the industrialized countries. These arrangements favour neither the development nor the expansion of South-South trade. Restructuring African trade along the lines called for by the Lagos Plan of Action requires familiarity with TNCs trade practices and the creation of new types of trade promotion between African and other developing countries.

III. EXTERNALLY INDUCED ADJUSTMENT PROGRAMMES

13. The priorities in trade promotion outlined in Section II presupposed an interanally-induced adjustment programme for development. However, Africa has in recent years been subjected to greater pressures from the International Monetary Fund (IMF) to adopt trade-related adjustment programmes which are not only incompatible with the overall economic policy of the countries, but in many cases also resulted in the disruption of the trade policies. Some of these aspects are briefly examined in this section. To begin with, it is a known fact that African countries which were forced to approach IMF for stand-by credits, had in many cases been compelled to abandon national economic policy. 1/

14. The IMF "prescriptions" invariably call for:

(i) the liberalization of external trade and payments including the removal of protectionist instruments (foreign exchange control, import contol);

(ii) the privatization of productive sectors and the abolition of restrictive measures governing the activities of foreign capital (foreign firms and transnational corporations) including the transfer of projects;

(iii) the devaluation of national currencies;

(iv) drastic reduction of state subsidies for food and social services;

(v) the adoption of budgetary policies in favour of business enterprises; (reduction or suspension of direct and indirect taxes, extensively liberal investment codes); and

(vi) the freezing of wages and their maintaining at low levels by governments.

1/ See Folker Frobel, Jurgen Heinziches, Otto Kreye "Wege aus der wirtschaftskrise? in physik, philosophie and politik translated by the United Nations University as "Dead end - western economic responses to the global economic crisis" (Development as Social Transformation UN University Newsletter).

15. For those countries which adopted such policies the IMF "prescriptions" resulted in the following: Firstly, there was an apparent destruction of efforts to build and strengthen national private and public productive entreprises, which were unable to compete in an open market with foreign firms and transnational corporations of developed countries. This was accompanied by the stagnation and drop in production intended for domestic consumption, in particular food production while capital intensive agricultural, industrial and service output for mostly foreign markets controlled by TNC's was increased. This further caused an imbalance between local resource based production intended for national needs and extroverted production to the detriment of output for domestic markets. 2/

16. Other equally disturbing features were the destruction of the rural subsistence economy by capital intensive export-agriculture which will increase emigration from rural areas to urban centres of the youngest productive agents.3/ An increased dependence on imports, in particular of foods and a huge external indebtedness; and the fact that in African countries, where there is no tradition of entrepreneurship and where domestic private capital is rather scanty, the Privatization of economy will increase foreign firms and TNC's control, which is detrimental to any national attempt to build self reliant economies.

17. The failure of IMF adjustment programmes in African countries, especially in the field of trade resulted from the fact that countries were forced to adopt external plans and programmes which did not make objective analysis of the prevailing African economic environment. In the field of trade, it must be pointed out that export promotion policies advocating the increase of exports of primary commodities to world markets to generate revenues for the financing of development activities did not take into account three important features:

(a) that there has been a long term decline in the share of primary commodities in world trade due not only to recessions in the industrialized countries but also to the increasing penetration of the world market by substitute products and technological advances that allow significant savings to be made in processing raw materials;

(b) that strategic primary commodities are now existing within advanced countries (such as oil) and are being exploited by those countries for their own needs and for exports to the other industrialized nations (Britain's oil, USSR gaz etc.). This has decreased the share of advance countries' imports of commodities from the African countries;

2/ Folker Frobel, Jurgen Heinreich, OHO Kreye, OP. Cit.

3/ See Ernest Feder, Perverse Development (Quezon City: Foundation for nationalist studies 1983). See also Hugo RADICE, International Firms and Modern Imperialism, Penguin Books.

(c) that developing countries (i.e. African countries) are now increasingly becoming net importers of a wide range of raw materials and intermediate inputs to feed their industries;

(d) that price fluctuations in the world market have been heavily against exporters of primary commodities especially those from Africa.

18. The externally-induced trade adjustment programmes implicit in IMF prescriptions also ignore certain critical factors. Firstly, that prospects for the promotion of exports of African manufactured goods to the world market are no better because of the insignificance of Africa as a producer of such goods. Secondly, there is a severe and at times automatic restriction that close the markets of developed market economy countries to products from developing countries in general and Africa in particular. The example of textiles, sugar, tobacco, beverages and canned food can be extended to other items. Thirdly, new techniques developed by the electronics industry and increasingly inexpensive automation within the context of the micro-electronic revolution has increasingly put Africa out of the World market of a whole range of manufactured goods by reducing the cost advantages of manufacturing industries in African countries.

19. Looked at in another sense, the African countries are victims of the secular deterioration of the terms of trade. 4/ The structure of production and marketing enables the developed countries to retain as much as 80% of retail prices of final products. It is estimated that share of retail prices accrueing to producers of raw materials range from less than 6% for tobacco, 12% for bananas, 20 to 25% for hides and skins and between 3 to 15% for cotton. 5/

20. It is therefore increasingly obvious that the IMF policy would result in maintaining African countries in a situation of overdependence on international economic relations including foreign trade with developed market economies over which Africa would have no control. It will also inhibit genuine development which is only possible through self-reliant and self-sustaining internally generated processes. Thus, it has become vital to initiate some form of "delinking" from the traditional extroverted trade pattern and the IMF adjustment prescriptions whose effects will be to maintain our countries in the status quo. In other words, the classical and neo-classical assumption that the export of primary commodities is the engine of growth 6/ should be abandoned. Modalities for the necessary "delinking were further defined within the Monrovia strategy and the Lagos Plan of Action. Their implications in market analysis and trade promotion policies are discussed in the next few sections.

4/ See Prebisch. The Economic Development of Latin America and its principal problems, 1950.

5/ UNCTAD, Marketing and distribution of primary commodities: areas for further international co-operation (TD/229/Supp/3) Manila May 1979.

6/ See G. Haberler, International Economic Development 1959, and AK Cairncross, Factors in economic development.

IV. TRADE PROMOTION AND MARKETING TECHNIQUES

A. Current situation

21. One of the misconceptions in Africa's development policy is the absence of a clear linkgage between production and marketing. In fact, the previous section has shown the disadvantages of ignoring marketing. Therefore, it is essential to stress in this section that markets are generally the major constraints on the economy of any country 7/ but they are of particular importance in developing and balkanized countries such as African countries. In fact, the very high level of excess capacity in African manufacturing industry is directly a result of the absence of such linkage. The dynamics of markets, in particular domestic markets, determine production, what should be produced, and how it should be produced hence the level of investments and activities of entreprises. Consideration should also be given to the large number of traditional local markets within any given national market, their links with advanced industrial economies, their dynamics and how these factors will affect efforts to combine national into subregional and regional markets.

22. A matter that needs stressing is that within the absence of appropriate income distribution policies, the existence of growth poles linked to the development of extractive industries (oil and other minerals) in some African countries (mainly the oil exporting countries) lead to the emergence of demand patterns which put emphasis on the import of non essential food items and luxury goods and the drain of foreign exchange to pay such imports in the detriment of local production and development programmes. This is exacerbated by modern communications and the uncontrolled use by TNC's of modern soohisticated marketing techniques such as mass advertising, promotion of brand names, consumer credit, market research, which help creaming off the high income level markets both national and subregional, leaving little or no room for indigenous traders to flourish.

23. As a result the current pattern of markets are characterized by two factors: (a) markets are dominated and manipulated by transnational corporations and foreign firms and the country becomes more dependent on imports of technology and manufactured goods as a result of deliberate differentiation 8/; (b) the African industrial sector, based as it is on import substitution, is more narrowly specialized, more import intensive and less capable of developing backward linkages.

7/ See M.L. Jhinghan The Economics of Development Planning, VISKAS publishing U.P. India (13th revised edition).

8/ RADICE op. cit. See also report and papers of the Round Table on the Role of TNC's in the Latin American Integration Process organized by UNCTAD and UNCTC in 1978.

B. Restructuring of African Markets: An Urgent Task

24. There is an urgent need to undertake a serious analysis of prevailing market mechanisms and marketing practices in each African country with a view to promoting a trade oriented development strategy taking into account the following: (a) policies and mechanisms to correct the income distribution imbalances should be formulated and applied; (b) selected local production lines should be protected and promoted; and (c) discriminatory import programmes putting emphasis on basic needs especially in food production and capital goods to support agricultural rehabilitation and reconstruction.

25. Greater attention should also be paid to domestic markets to ensure that their integration into subregional and regional markets will not result in creating expanded markets for TNC's. Due to the limitation of the national African markets it is imperative that new development strategy should be based on enlarged multinational markets (i.e. subregional and regional markets). For this purpose, there is an urgent need to accelerate the establishment of subregional common markets and a common external tariff and customs legislation to ensure the necessary protection of African national and multinational production and marketing enterprises.

V. TRADE FACILITATION AND INSTITUTIONAL MECHANISMS

A. Financing of trade activities

26. Trade facilitation is one of the most critical aspects of the African trade promotion policy. Unfortunately, it is also an area where low priority is given by African governments. Some of these mechanisms and briefly examined below. The mechanisms for financing requirements of productive activities have already been introduced at the subregional level. For instance, the West African Development Bank (BOAD), the Central African Development Bank (BEAC) and the Trade and Development Bank for Eastern and Southern African States, are subregional financing institutions created to support production and trade activities.

27. One of the impediments to the development of intra-African trade is the scarcity of foreign exchange to finance trade transactions. In order to reduce the dependence on foreign resources for financing intra-African trade, clearing and payments mechanisms at the subregional level have been established. The objective is to form an African Payments Union at a later stage. In West Africa the West African Clearing House serves all ECOWAS countries while in Central Africa, Central African Clearing House was established but is still experiencing operational difficulties. The clearing house for countries members of the Preferential Trade Area for Eastern and Southern African States has been inauguarated, with the Reserve Bank of Zimbabwe designated to serve as its interim secretariat. At the regional level, a feasibility study for the formation of an African Monetary Fund was completed. A ministerial meeting to consider the recommendations for its establishment will be held in November 1985.

B. Trade promotion institutions

28. Trade promotion mechanisms set up within the secretariats of the subregional economic integration organizations, include the following: (a) The African Regional Organization for Standardization (ARSO) whose role is to harmonize standards and set regional standards; (b) The Association of African Trade Promotion Organizations (AATPO) whose purpose is to provide technical support for its members and co-ordinate their trade promotion, information, marketing and market study activities; (c) The Federation of African Chambers of Commerce which is responsible for establishing and/or strengthening chambers of commerce whose role as investment and trade promotion agencies should receive more attention, (d) The African Trade Centre, which is part of the Economic Commission for Africa undertakes the following functions. 9/

(i) Collecting and disseminating information, and operating, a regional trade information service;

(ii) Assisting ECA member States in trade promotion and market surveys;

(iii) Conducting activities to establish and/or strengthen national trade promotion institutions,

(iv) Supporting the establishment and strengthening of associations of trade promotion organizations and of institutions offering training in techniques for promoting and streamlining trade (import and export) at the national, subregional and regional levels;

(v) Organizing African trade fairs in conjunction with OAU;

(vi) Planning, organizing and carrying out training activities (courses, colloquia, seminars, workshops etc.);

(vii) Engaging in trade facilitation activities in co-operation with UNCTAD (PALPRO).

29. The collective and integrationist approach of the African strategy for trade development requires the establishment and strengthening of operational subregional bodies for co-ordinating and implementing the common trade promotion policy. These include the following:

9/ The ATC was established pursuant to resolution 199(IX) adopted at the Ninth Session of the Economic Commission for Africa held in 1969. Resolution 222(X) of the first meeting of the ECA Conference of Ministers, held in February 1971, defined the priorities to be observed by the Centre.

(a) The West African Economic Community (CEAO) has an operational unit, the Office communautaire de promotion des exhanges (OCPE), which deals with trade promotion issues;

(b) The secretariat of the Economic Community of West African States (ECOWAS) has provisions for a subregional trade promotion unit with its own trade information system and research and marketing department;

(c) The Economic Community of Central African States (ECCAS) is also expected to have a subregional trade promotion centre similar to the one planned for ECOWAS.

30. The highest priority needs to be given to strengthening the secretariat of the regional and subregional trade institutions, more specifically the Association of African Trade Promotion Organizations (AATPO) should be allocated additional resources if it is to be able to help national centres to co-ordinate their activities, exchange information and reduce the costs of certain activities (market surveys, training and acquisition of information). There is also a pressing need to strengthen AATPO's information system.

C. Other trade promotion mechanisms

(i) Agricultural commodity exchanges

31. The increase in production expected under the Lagos Plan of Action as well as through rehabilitation and reconstruction of agro-industries would entail a higher demand for agriculture raw materials. Therefore, the establishment of an Agricultural Commodity Exchange is considered a matter of top priority. Feasibility studies have been conducted and should result in the establishment of the first such commodity exchange in Eastern and Sourthern Africa. Similar studies are planned for other subregions.

(ii) Multinational production and marketing enterprises

32. Multinational production and marketing enterprises are an integral part of African collective self-reliance. A feasibility study on the establishment of a multinational marketing company for Eastern and Southern African countries has been prepared. At the same time, research on the establishment of subregional credit and export insurance systems is being carried out, beginning with Eastern and Southern Africa. A similar research is also being carried out on State Trading Organizations (STOs) with a view to offering consultancy services on how to co-ordinate their activities.

(iii) Trade information and training

33. The ECA secretariat is also working on the establishment of an African trade information network based on the optimum use of the Pan-African Documentation and Information System (PADIS) at its decentralized, national and subregional levels. In the mean while, "FLASH on Trade Opportunities" and the African Trade Bulletin are circulated to African businessmen through their organizations, Chambers of commerce, trade unions and institutions and also to Asian and Latin American business circles on request.

34. In order to assist member States in developing their technical and managerial capabilities to handle trade promotion , courses, workshops, colloquia and symposia on export marketing and import management have regularly been organized with assistance from Finland's PRODEC (Helsinki School of Economics). Dozens of Namibian students and other African nationals have also received on-the-job training in trade promotion and planning with the co-operation of the Ethiopian Ministry of Foreign Trade and Central Planning Committee.

35. The involvement of the actual trade operators in the field (i.e. traders and businessmen) is a critical element of trade promotion activities. Therefore, at the international level, trade promotion has laid emphasis on south-south co-operation. To this end the Government of the Netherlands provided the much needed financial assistance to ECA secretariat in organizing of study tours for African businessmen to South-East Asia, Latin America and the Middle East. Such tours proved to be extremely practical, and in some instances, resulted in immediate orders for African products. It is imperative that similar tours should constitute an integral aspect of future African trade promotion policy.

VI. CONCLUSIONS

36. It is indeed a very disturbing factor that five years after the adoption of the Lagos Plan of Action for the implementation of the Monrovia Strategy, most African countries failed to apply the trade promotion policies for self-reliant and self-sustaining development recommended in the plan. Instead, under pressure of the crisis, they have resorted to conservative recovery plans and programmes which do not have much to do with the Lagos Plan of Action and which contribute to the maintaining of extroverted economies, and in particular, trade patterns based on the export of primary commodities.

37. As indicated in the text, externally induced trade promotion policy has been largely determinental to Africa's growth prospects. In fact, the measures recommended by international financial institutions, in particular IMF, do not take into account the declining trends of the world market of commodities on which most African countries largely depend for export earnings. The liberalization of external trade recommendation has further frustrated African efforts to build national self-reliant economies and has put the economies largely in disarray and under the domination of transnational corporations. This cannot be acceptable as a framework for Africa's trade promotion policy. Some form of "declining" is therefore inevitable.

38. The current pattern of African markets and marketing techniques increase the dependance of African countries on the imports of technology and manufactured goods from the industrialized countries as differentiation continues through high technology by TNCs. No sound basis for industrialization could be created under such conditions. It is therefore necessary that any trade development policy and trade promotion should clearly understand the existing market mechanisms and to adopt series of measures for the protection of African domestic markets through effective and deliberate internally-induced restructuring.

39. It should also be part of Africa's trade promotion policy to work forward for the integration of the narrow and unviable domestic markets into subregional markets and a regional market as recommended in the Lagos Plan of Action. The establishment of an African Common Market should be stepped up for the development and expansion of intra-African trade. Drastic changes should be introduced in the present market patterns to reduce and eliminate the TNC's domination in the structures of production, distribution and marketing.